

Nation's Restaurant News

THE NEWSWEEKLY OF THE FOODSERVICE INDUSTRY

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January 7, 1991



Outlook for '91

In an in-depth look at the year ahead, Nation's Restaurant News takes a look at every foodservice segment from fast food and catering to schools and fine dining.

Forecast & Trends section begins on page 35.

Irving Riese dies at 71; built NYC restaurant empire

by Charles Bernstein

GREAT NECK, N.Y. — Irving Riese, a poverty-ridden Harlem youngster who became a dishwasher-soda jerk in his early teens and who with his younger brother, Murray, fashioned a \$300 million-volume restaurant empire of almost every conceivable name-brand concept, died of a heart attack near his home here last month. To the end, he was a consummate master of the real estate-restaurant game.

The 71-year-old Riese had just completed a typical Saturday morning six-mile walk here with Murray and was on his way home when he collapsed. An ambulance rushed him to a hospital, where emergency medical personnel managed to revive him briefly but could not save him.

A semivegetarian and (See IRVING, page 141)



Irving Riese, on the phone, as brother Murray looks on, in a photo from a decade ago.

Belatti stuns Arby's, quits as president

Chain's move to Miami triggers surprise resignation

by Jack Hayes

ATLANTA — In a sudden reversal that shocked his subordinates, Arby's president, Frank Belatti, has resigned rather than lead the company's move to the Miami Beach base of its corporate parent, Victor Posner-controlled DWG Corp.

Belatti, the man credited with nursing the 2,300-unit roast-beef sandwich chain out of turmoil a year ago, quit just before Christmas and only two weeks after declaring his full support for the Posner-ordered move.

His departure from the \$1.3 billion chain, which has seen same-store sales flatten in recent months, leaves Arby's entering 1991 in a management vacuum and searching for its sixth president in less than a



Frank Belatti

year and a half.

"The mood is down; it's like an old wound has reopened,"

said an insider at Arby's headquarters here after Belatti's resignation was announced.

Meanwhile, Posner is downplaying the loss of his chief operating officer.

"While I'm sorry to lose a man of Frank Belatti's talents, his decision was a personal one and in no way reflects the regard we hold for each other," said Posner in a prepared statement. "Our plans are already set for moving Arby's forward," he added.

Belatti, who would neither confirm nor deny reports that he is leaving to join a New York investment group with connections to former Reagan administration budget chief David Stockman, was somewhat apologetic. (See BELATTI, page 141)

Regionals battle big boys with localized marketing

by Jack Hayes

Worn thin by a stingy economy, abandoned by fickle customers and bullied by the big-spending competition, regional restaurant chains are launching a survival counterattack that will stretch menus, hours, nerves and budgets to the limit in 1991.

Fearful of being run off their turf as McDonald's and others join such chain giants as Wendy's and Taco Bell in a continuing national price war, operators like 22-unit Fatburger in California, 50-unit Miami Subs in Florida and 40-unit Pudgie's in New York are writing a new

set of rules for local marketing.

Maximizing their flexibility and unique niches while minimizing their spending, regional operators are deploying money-back meal guarantees, off-hour promotions, bold store logos and family dinner packages.

(See REGIONAL, page 7)

INSIDE

GOP no longer the Grand Old Party

Bernstein/Page 27

'91 won't be as bad as you think

Telberg/Page 30

Appetizers: Big checks, small plates

Fabricant/Page 11

Secondary smoke tied to waiter's heart disease

by Richard Martin

SAUSALITO, Calif. — In a workers compensation settlement that may prove precedent setting, "secondhand" tobacco smoke in an allegedly poorly ventilated Sausalito restaurant has been recognized as contributing to a 54-year-old waiter's heart disease.

The waiter, who underwent triple-bypass surgery after suffering a heart attack in

the restaurant where he had worked for more than six years, accepted an insurance company's tentative offer to pay off his \$85,000 medical bill and \$9,500 disability claim on the eve of a Workman's Compensation Appeals Board trial in San Francisco.

Restaurant industry officials, prominent scientists, in- (See WORKERS, page 4)

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January 7, 1991

NEWS BRIEFS

IRS seeks wider operator role in tip reporting

WASHINGTON — The Internal Revenue Service has advised the federal government to capture lost tax revenues by having restaurateurs verify that tips included in credit card charges are declared by wait staffers as income.

The IRS also advised that the tip-reporting law, which was foisted on the industry in 1982, should be expanded to include places with less than 10 employees that are currently exempted.

In addition, an IRS report calls for raising the tip-allocation threshold — the point at which a restaurateur must assign additional tip income to employees because their reported gratuities do not jive with sales figures — to 10 percent of revenues. Currently, an operator is mandated to allocate the additional income when employees' reported total intake falls below 8 percent of the restaurant's receipts.

The National Restaurant Association blasted the recommendation concerning charged tips as an attempt by the IRS to expand its use of operators as surveillance agents.

Feds try to seize hospitality union, cite Mafia control

ATLANTIC CITY, N.J. — Alleging that the hospitality workers' union here has been extorting money from local restaurants and bars, U.S. officials have asked a court for the go-ahead to seize control of the Hotel Employees & Restaurant Employees chapter.

In a civil suit filed in Trenton's Federal District Court, U.S. prosecutors charged that HERE Local 54 has been dominated by organized crime figures who have used murder and intimidation to exploit the 22,000-member union. The officials argued that the alleged mobsters have siphoned money from the chapter's benefits funds and used their connections to shake down eating places in the resort.

Prosecutors asked the court to wrest the union away from its current management and put the federal government in charge.

"It's a wholly unwarranted action without any basis in fact," Bernard Katz, an attorney for Local 54, said of the suit. "It's an attempt by a troubled attorney general's office to divert attention from some of the problems that have been plaguing our government."

Melman opens new Tex-Mex saloon

CHICAGO — The Original A-1 Border Beanery, Bail Bonds and One-Hour Perms is the latest restaurant brainstorm of Richard Melman and his Lettuce Entertain You Enterprises.

The 180-seat dining room and two bar areas resemble a

run-down saloon on the Texas-Mexico border. The actual location is on the floor above the Baja Beach Club at the North Pier specialty mall here.

The menu features a combination of Mexican and Texan cuisine. On the Texas side there are a choice of fajitas; mesquite-grilled steaks, chicken, shrimp and fish of the day; barbecue; and chili. From south of the border, choices include enchiladas, burros, quesadillas, nachos and tamales.

Horn & Hardart to sell King's Table

WEEHAWKEN, N.J. — Horn & Hardart Co. will complete its withdrawal from the foodservice industry next March when it divests its 83-unit International King's Table chain.

The company said the sale would result in a "significant" fourth-quarter charge against earnings.

International King's Table operates buffet-style restaurants in five Western states.

H & H has been selling off elements of its formerly diverse restaurant empire for the past couple of years to concentrate on its mail order business.

NY Burger Kings cut burger prices

NEW YORK — A number of Burger King units here have responded to McDonald's recent price rollback by dropping the prices of their hamburgers to 49 cents, undercutting McDonald's bargain rate by a dime.

The sandwiches formerly sold for about \$1.09 each.

The promotion was conceived and launched by local operators without input from Burger King's marketing department in Miami, a spokesman said.

McDonald's restaurants here recently slashed the prices of their hamburgers and cheeseburgers to 59 and 69 cents, respectively.

McDonald's names woman journalist to company board

OAK BROOK, Ill. — McDonald's Corp. has elected its first woman board member since 1970.

The new director, Terry Savage, is a Chicago television and newspaper financial journalist and author. She also is a registered investment adviser and was the first woman member of the Chicago Board Options Exchange.

In accepting the post, Savage agreed not to report on McDonald's, its competitors or any of its suppliers. Her superiors at the Chicago affiliate of CBS-TV said they have no problem with her appointment, but her editor at the Chicago Sun-Times raised concerns about possible conflict-of-interest issues.

Savage is the first woman to serve on the board since June Martino, founder Ray Kroc's secretary, served from 1960 to 1970. Before that, Ethel Kroc, Kroc's first wife, was a board member from 1956 to 1960.

Dunkin' Donuts links Exxon as franchisee

MEMPHIS, Tenn. — Dunkin' Donuts has sealed an agreement with Exxon Co. USA that will put Dunkin' Donuts units in all 28 of the petroleum company's service stations here by mid-March.

Exxon said it plans to feature both self-service and "manned" modular units in the stations. Currently, Exxon has seven downsized Dunkin' units in service stations and one free-standing unit.

Laurent closes to reorganize

NEW YORK — Laurent, a 40-year-old Manhattan French classic restaurant, has shut its doors to reorganize, according to owner Laurent Losa.

He said that while he hopes the restaurant will remain closed only temporarily, the soaring costs of doing business in New York could force him to shutter Laurent permanently.

A Nation's Restaurant News Fine Dining Hall of Fame award winner, the 178-seat Laurent opened in 1951, building a reputation as one of New York's power lunch restaurants with its classic French cuisine.

Mazzio's Pizza helps deaf patrons phone in orders

TULSA, Okla. — In an effort to include the hearing-impaired among its home delivery customers, Mazzio's Pizza has installed a "Telecommunications Device for the Deaf," a message-typing apparatus that allows deaf people to use the telephone without the aid of a hearing adult.

The 262-unit operation based here is testing its TDD in its "one-number" delivery service in the Tulsa market. Customers equipped with the TDD in their homes can type their requests directly to the Mazzio's delivery number to get the order they want. The Mazzio's unit located closest to the address will deliver the food.

A Mazzio's spokesman estimated that there were approximately 45,000 hearing-impaired people in Tulsa County.

Hard Rock Cafe wins logo fight

LOS ANGELES — The Hard Rock Cafe has won an injunction prohibiting an art firm here from distributing a print depicting the logo of the casual-themed chain.

A federal district court here issued a temporary restraining order against Martin Lawrence Limited Editions Inc., forbidding it to sell a print called "Snowy Night Swing" — which shows a hot-air balloon with a Hard Rock logo on it. This past year Hard Rock has cracked down on bootleggers around the country who sell T-shirts, hats and items featuring the Hard Rock Logo.

FINANCIAL NEWS

Menus, marketing strategy boost General Mills profits

by Jack Hayes

ORLANDO, Fla. — Bolstering its U.S. dinner-house fleet with 19 new Red Lobsters and Olive Gardens and powering its menus with a strong head wind of value promotions and new lunch products, General Mills Restaurants Inc. sailed profitably on what had been a windless sea for much of the industry during its second quarter.

Despite flat average-unit sales in its Red Lobster chain, the restaurant division of Minneapolis-based General Mills reported that operating profits rose 16 percent, to \$26.4 million, for the 13 weeks ended Nov. 25, on a 15-percent increase in sales, to \$497.9 million.

The company overcame a sluggish quarter start, when Red Lobster traffic slumped, by restructuring its lunch menu and promoting lower-priced dinner specials. The strategy, including substituting some lunch menu items with lower-cost and lower-priced alternatives, paid off by allowing the company to tow the line on sales without raising menu prices.

During the first fiscal quarter, Red Lobster's average unit

sales grew 4 percent.

"They saw some unbalance in August and early September and moved in with a king crab promotion, a new lunch menu and a raft of dinner specials," said analyst Nomi Ghez of Goldman Sachs, New York.

"They're right on top of things," she added. "This is a company that doesn't wait around until consumers make things happen."

"The key is good management," said analyst John Maxwell of Richmond, Va.-based Wheat First Securities, noting the recent promotion of the division's president, Joe Lee, by the parent company. Lee will become executive vice president of finance at General Mills' corporate headquarters in April and will succeed vice chairman F. Caleb Blodgett as chief financial officer when he retires on May 1, 1992.

Meanwhile, The Olive Garden continued to post strong results in the second quarter, with average unit sales up 3 percent. Fourteen units were opened in the United States during the quarter, and a total of 50 new res-

taurants are planned for the year, said General Mills spokeswoman Ann Powell.

The restaurant division — which owns and operates about 580 Red Lobsters and 239 Olive Gardens and is testing another dinner-house concept, China Coast — also added five new Red Lobsters during the quarter. Thirty-eight new seafood dinner houses will have opened by the end of the fiscal year, Powell said.

"The industry is adjusting," Lee said. "Marginal operators who were just holding on are closing. This is a movement that will benefit the strong."

Through the first six months, restaurant division operating profits increased 15 percent, to \$79.9 million, on a 17-percent jump in sales, to \$1.1 billion.

General Mills chalked up a 34-percent leap in operating profits, to \$223.6 million, for the quarter, on a 13-percent rise in sales, to \$1.8 billion. General Mills' total six-month operating profits rose 25 percent, to \$449.8 million, on a 14-percent increase in sales, to \$3.6 billion.

Nov. industry sales hit 3-month high

WASHINGTON — Sales growth at the nation's eating and drinking places rose at a 4.5-percent year-to-year rate in November, the fastest in three months, according to the government's broadest and earliest gauge of retail activity.

But at the same time menu price inflation remained steady, at 4.6 percent, suggesting that traffic declined by one-tenth of 1 percent in November from the year-ago month.

Margins, nevertheless, may have found some minor relief in November as wholesale food costs marked a third month

of year-to-year declines.

The Commerce Department reported that the 4.5-percent year-to-year sales gain followed a 3.3-percent rate in October and a 3.4-percent pace in September. The figure is not adjusted for seasonal and trading-day differences.

The Department of Labor said the Consumer Price Index for food away from home, which measures menu prices, continued at a 4.6-percent clip in November and October as overall inflation gained 6.4 percent.

Analysts said the advance was surprisingly modest given

oil price hikes stemming from the Persian Gulf crisis.

Meanwhile, the Labor Department's Producer Price Index for Finished Consumer Foods, a barometer of ingredient costs, rose at a 4.2-percent rate in November, a slowdown from the 4.3-percent pace in October and the 4.7-percent advance in September.

Dairy product prices fell 4.3 percent, cheese prices lost 10 percent and processed young chicken prices eased 3.9 percent, the department said. Pork was one of the few food products to rise, up 16 percent.

FOOD PRICE OUTLOOK

Hog supplies up; pork prices down

by Patt Patterson

You still couldn't call pork a great bargain, but recently the prices have dropped as shipments of fattened hogs to market have increased. U.S. Department of Agriculture surveys show an increased number of hogs on farms but not quite as many as last year at this time. Bad weather in the Midwest could hold up farmers' shipments to slaughterhouses, but overall prices should continue to moderate through January.

Lamb supplies have increased by more than 5 percent over last year's at the same time. There has been some downward movement of prices, but in-

creased demand has slowed reductions. Stocks are about 25 percent ahead of last year's.

Coffee prices may be headed up, although most roasters have adequate supplies for the heavy winter usage period. Brazil's exports have not been so heavy as expected, and there may be a longshoremen's strike in Colombia. Price increases from such factors take quite a while to work through the supply chain, however, so roasted coffee prices should remain fairly stable until spring.

Desert Shield is boosting prices on some commodities. Canned corn is already moving

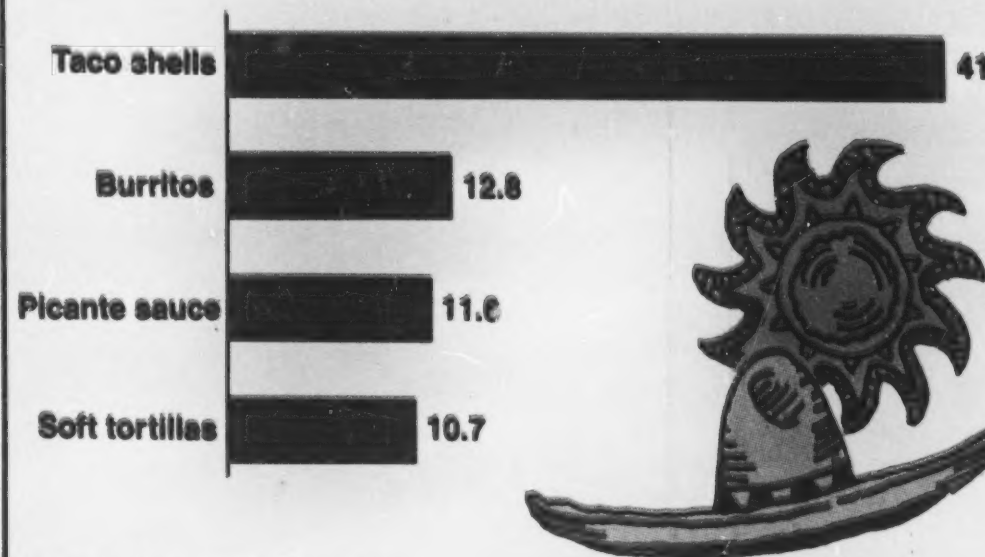
up in price, with canned green beans expected to react soon. Other vegetables and fruits will probably be affected as the troops continue to stay in Saudi Arabia.

Overall, demand for fish and other seafood continues to increase, but supplies are down from last year's. That condition will continue to exert upward pressure on prices into the new year. For many species, such as cod, there doesn't seem to be any prospect for increased supply in the near future. An increasing number of firms are looking into aquaculture, but the number of species for which farming has proved practical is limited.

FACT FILE

Ole! Mexican food invades the home

The growing market for Mexican food shows about 33.5 million homemakers serving it — up nearly 20 percent from 1985. Forty-one percent of homemakers are using some kind of Mexican food. Topping the list of served foods are, in percentages:



Source: TLR/Mediapark Research Inc.

FINANCIAL DIGEST

Bob Evans' net rises 8 percent

COLUMBUS, Ohio — Bob Evans Farms, a family restaurant operation based here, said net income increased 8 percent, to \$7 million, for the second quarter ended Oct. 26.

Bob Evans, which noted there were 20 more restaurants in the system than in the prior quarter, said systemwide sales for the 247-unit chain rose 11 percent, to \$91.3 million.

For the six-month period net income was also up 8 percent, to \$16.5 million, while sales jumped 11 percent, to \$181.2 million.

National Convenience sells 29

HOUSTON — National Convenience stores has signed a letter of intent to sell 29 Stop N Go units in West Palm Beach, Fla., to British Petroleum. Terms of the deal were not disclosed.

V.H. Van Horn, president and chief executive officer, said the transaction supports the company's plan to exit from tough markets.

"This sale represents another step toward our strategic objective of focusing our asset base by building major positions in certain markets and withdrawing from other markets where we are less important," he said. "The proceeds will be used to reduce bank debt."

Ark Restaurants reverses loss

NEW YORK — Ark Restaurants, an operator and manager of 21 one-of-a-kind restaurants in Manhattan, Boston and Washington, reversed a loss of \$44,000 last year to report a profit of \$753,000 for the year ended Sept. 29.

Revenue rose 15 percent, to \$47.9 million.

For the fourth quarter, the company's loss narrowed to \$83,000, down from a \$450,000 year-ago deficit.

The company attributed the losses to the closing of the Big Kahuna and the site's subsequent conversion into K Paul's New York.

"This is a decent result in what is a deteriorating environment for the restaurant industry," said Michael Weinstein, president of Ark. "We continue to be aggressive in lowering the structured costs of doing business. Meanwhile, we continue to be adversely affected by increased taxation on alcoholic beverages and an increased minimum wage. These costs cannot be passed through at a time when demand is tough."

Site sales help Perkins profits

MEMPHIS, Tenn. — Perkins Family Restaurants' third-quarter net income jumped 10 percent, to \$5 million, on a 4-percent gain in revenue, to \$46.8 million, for the period ended Sept. 30.

About \$500,000 of the profit improvement was attributable to site sales and other property transactions, the company said.

For the nine-month period, net income jumped 16 percent, to \$11.3 million, while revenues rose to \$132.7 million.

Same-store sales for the quarter gained eight-tenths of a percent. For the nine-month period, store sales rose 3.4 percent. Don Smith, chairman and chief executive officer, said the slim same-store sales growth reflected consumer uncertainty about the economy.

"Management's emphasis on cost controls helped us achieve this higher margin even though same-store sales were up eight-tenths of a percent due to the uncertain economy and its adverse impact on consumer spending," Smith said. "We look forward to continued success in the fourth quarter, when at least 10 new franchised restaurants will open."

At the end of the quarter, Perkins operated a 389-unit chain, of which 275 were franchised.

FORECAST & TRENDS

Overview

Key to winning patrons: Value, value, value

by Peter Romeo

Despite expectations of a slight sales improvement for the foodservice industry as a whole, forecasters warn that individual operators will have to struggle fiercely in 1991 merely to match last year's traffic levels, especially if war erupts.

"For individual companies real sales will probably be down by one to five percentage points," said Ron Paul, president of Technomic Inc., which drafts an annual foodservice sales forecast for the Interna-

“Operators won't necessarily hire more people, but the smart ones will maintain their current labor force and train them better.”
— Knapp

tional Foodservice Manufacturers Association. "There will just be so many more people out there competing for what moderate growth [opportunities] will be available in a weak economy."

The bleak situation, experts agreed, will force many restaurateurs to sacrifice a portion of their profit margins. They expect economic hardship to hone consumers' desire for value, driving fast feeders and full-service places alike to pack their menus with bargain-priced customer lures.

Indeed, the National Restaurant Association foresees a proliferation of "frequent guest" discount promotions patterned after the frequent flyer promotions most airlines use.

At the same time, "to satisfy value-driven consumers, it will be necessary to meet or exceed their service expectations," the NRA noted in its 1991 sales forecast.

"Operators won't necessarily hire more people, but the smart ones will maintain their current labor force and train them better," said Malcolm M. Knapp, the New York researcher and consultant who compiled the data for the NRA's report.

"There'll be no savings there."

Given that set of circumstances, "you're going to have to give up some margin," especially if you compete in the fast-food sector, Knapp said. "The number of transactions will have to go up."

By all accounts, economic conditions will make that task a Herculean one. According to Blue Chip Economic Indicators, a consensus of more than 50 economists, the recession that began in the last quarter of 1990 will conclude by April, yielding a scant 0.8-percent rise in the gross national product for the full year. That compares with a projected 1-percent rise for 1990.

Meanwhile, consumer confidence in the economy has ebbed to its lowest level since the bruising recession of 1982. Fearing a further decline in their earning power, Americans are reluctant to spend money today that they could direly need tomorrow to pay for such necessities as housing.

As a result, the NRA is forecasting a 0.6-percent inflation-adjusted rise in total foodservice sales, compared with last year's 0.3-percent increase. With menu prices projected to advance by 4.6 percent, the NRA's prediction translates into a nominal 1991 sales increase of 5.2 percent, or \$12.3 billion, which would yield a record industrywide intake of \$248.13 billion.

IFMA is more optimistic in its outlook, with Technomic's data calling for a 1.3-percent climb in real sales, to \$261.28 billion, following last year's 1.1-percent rise.

"People ask us how we can forecast an improvement in sales when so many people are doing poorly," Paul said. "We remind them that the figure is for the industry as a whole; it's a much different situation for individual companies. Very few of them will see real sales growth."

The NRA and IFMA agreed that the outlook for 1991 would darken dramatically if a war commenced in the Middle East.

"All bets would be off," said Susan Mills, the NRA's research director. "It would make a lot of people nervous because of the uncertainties. Any kind of unsure situation will make consumers even more afraid to spend money."

"It would be another reason for people to cut back," Paul added. In addition, "there would be a spike in the inflation rate, which is always bad for this industry."

FOODSERVICE INDUSTRY FORECAST

	Sales in billions of dollars		% of change	
	1991	1990	nominal	real
Eating places				
Restaurants, lunchrooms	\$ 79.42	\$ 75.93	4.6%	0.0
Fast-food outlets	74.13	69.89	6.2	1.9
Commercial cafeterias	4.61	4.37	5.3	0.7
Social caterers	2.42	2.34	3.1	3.5
Frozen-food stands	2.06	2.00	3.0	(1.0)
TOTAL, eating places	162.64	154.35	5.4	0.8
Bars, taverns	8.59	8.73	(1.0)	(0.5)
Contract feeders				
Business & industry	5.47	5.11	7.0	2.4
Manufacturing, industrial plants	4.10	3.83	7.1	2.5
Commercial, office buildings	1.37	1.29	6.5	1.9
Hospitals, nursing homes	1.83	1.68	8.6	4.0
Colleges, universities	3.17	2.86	10.8	6.0
Primary, secondary schools	1.27	1.20	5.5	1.9
Airlines, cruise ships	1.61	1.47	8.9	4.3
Recreation, sports centers	1.91	1.80	6.0	1.4
TOTAL, contract feeders	15.26	14.13	8.0	3.3
Lodging places				
Hotels	13.11	12.43	5.4	0.8
Motor inns, motels	2.55	2.43	5.2	0.6
TOTAL, lodging places	15.66	14.86	5.4	0.8
In-store restaurants	7.79	7.32	6.4	1.8
Recreation, sports facilities	2.88	2.70	6.2	1.4
Mobile caterers	0.89	0.84	5.8	0.7
Vending, non-store retailers	5.69	5.42	5.0	0.4
TOTAL, all commercial establishments	219.49	208.40	5.3	0.7
Institutional places				
Employee-feeding places	1.97	2.0	(0.2)	(5.0)
Public schools	3.78	3.61	4.5	(0.1)
Colleges, universities	4.03	3.95	2.2	(2.0)
Transportation sites	1.28	1.18	8.0	5.3
Hospitals	3.48	3.00	16.0	1.9
Nursing homes	4.14	3.92	5.6	1.9
Clubs, camps	2.30	2.18	5.4	0.8
Community centers	0.67	0.63	6.7	3.0
TOTAL, institutions	27.65	26.35	4.9	0.5
Military facilities				
Officers, NCO clubs	0.67	0.70	(3.9)	(8.5)
Military exchanges	0.32	0.34	(5.0)	(9.6)
TOTAL, Military	0.99	1.04	(4.3)	(8.9)
GRAND TOTAL	248.13	235.78	5.2	0.6

Source: National Restaurant Association



“For individual companies, real sales will probably be down by one to five percentage points. There will just be so many more people out there competing for what moderate growth [opportunities] will be available in a weak economy.”

— Ron Paul